

D.P.U. 93-7D

Application of Nantucket Electric Company:

(1) under the provisions of G.L. c. 164, § 94G and the Company's tariff, M.D.P.U. 193B, for approval by the Department of Public Utilities of a change in the quarterly fuel charge to be billed to the Company's customers pursuant to meter readings in the billing months of November and December 1993, and January 1994; and

(2) for approval by the Department of rates to be paid to Qualifying Facilities for purchases of power pursuant to 220 C.M.R. 8.00. The rules established in 220 C.M.R. 8.00 set forth the filings to be made by electric utilities with the Department, and implement the intent of sections 201 and 210 of the Public Utilities Regulatory Policies Act of 1978.

APPEARANCES: Stephen H. August, Esq.
Keohane & Keegan
21 Custom House Street
Boston, Massachusetts 02110
FOR: NANTUCKET ELECTRIC COMPANY
Petitioner

L. Scott Harshbarger, Attorney General
By: Daniel Mitchell
Assistant Attorney General
131 Tremont Street
Boston, Massachusetts 02111
Intervenor

Jane Walton
22 North Pasture Lane
Nantucket, Massachusetts 02554
Limited Participant

I. INTRODUCTION

On October 4, 1993, pursuant to G.L. c. 164, § 94G and 220 C.M.R. 8.00, Nantucket Electric Company ("Nantucket" or "Company") notified the Department of Public Utilities ("Department") of the Company's intent to file a quarterly change to its fuel charge in conformance with its tariff, M.D.P.U. 193B, and to its Qualifying Facility ("QF") power purchase rates in conformance with its tariff, M.D.P.U. 193B. The Company requested that both these changes be effective for bills issued pursuant to meter readings for the billing months of November and December, 1993, and January 1994. The matter was docketed as D.P.U. 93-7D.

Pursuant to notice duly issued, a public hearing on the Company's application was held on October 22, 1993, at the Department's offices in Boston. Notice of the hearing was published by the Company in the Nantucket Inquirer and Mirror. The Company also complied with the requirement to mail a copy of the notice of the hearing to all persons with whom the Company has special retail contracts that do not incorporate a filed rate, and to all intervenors and their respective counsel from the Company's prior two fuel charge proceedings. The Attorney General intervened pursuant to G.L. c. 12, Section 11E. In addition, Jane Walton, a residential customer of the Company, was granted status as a limited participant (Tr. at 4).

At the hearing, the Company sponsored one witness: Douglas

Kenward, director of planning and regulatory affairs for the Company. In addition, the Company submitted six exhibits, which were admitted into evidence.

On October 22, 1993, Ms. Walton filed comments with the Department. On October 25, 1993, Ms. Walton filed additional comments. On October 27, 1993, the Company filed a reply to Ms. Walton's comments.

Nantucket supplies electricity at retail cost to the Island of Nantucket, which is not interconnected with the mainland or with any other electric company or system. Thus, the Company is distinguishable from most other New England utilities in that it is completely dependent on itself and any nonutility power producers on Nantucket Island for its generation needs. The Company's generating plant consists of thirteen internal combustion (diesel) engines and associated generators, variously sized from 700 kilowatts ("KW") to 6,900 KW, with a total installed generating capacity of approximately 32,250 KW. The Company has 7,540 customers on a monthly basis, of which approximately 2,000 are year-round customers. In its 1992 annual report to the Department, the Company reported retail revenues of \$11,940,184 from the sale of 83,661 megawatthours of electricity.

II. FUEL CHARGE

A. The Fuel Adjustment Clause

On October 15, 1993, the Company filed with the Department its proposed changes to its fuel charge and QF power purchase

rates for November and December 1993, and January 1994. On October 21, 1993, the Company filed supplementary prefilled testimony, revised fuel charge and QF rate schedules. The Company proposes a fuel charge of \$0.05898 per kilowatthour ("KWH") (Exh. N-2, at 4; Tr. at 16). The proposed fuel charge is \$0.01177 per KWH less than the interim fuel charge of \$0.07075 per KWH approved by the Department in Nantucket Electric Company D.P.U. 93-7C (1993) for meter readings for the billing month of October 1993. The proposed fuel charge is \$0.00621 per KWH more than the quarterly fuel charge of \$0.05277 per KWH approved by the Department in Nantucket Electric Company D.P.U. 93-7B (1993) for meter readings for the billing months of August and September 1993.

In its calculation of the proposed fuel charge, the Company first estimated the cost of fuel and purchased power for the three month period commencing November 1, 1993 at \$1,237,966.05 (Exh. N-4, at 1). To this amount, the Company added \$19,939.31 to take into account the reconciliation for the prior four-month period (id.). From this amount, the Company subtracted \$3,582.01, which represents the amount to be returned to ratepayers pursuant to a Department Order dated October 19, 1993 (id., Exh. N-2 at 2-3)¹. This results in a total to be

¹ In its annual performance review of Nantucket's performance for the period from April 1, 1991 to March 31, 1992, the Department found that the Company failed to prove the prudence of its actions relating to certain repairs required
(continued...)

collected of \$1,254,323.35 which is divided by the estimated sales of 21,265,679 KWH (for the three months commencing November 1, 1993) resulting in the proposed fuel charge of \$0.05898(id.).

The Company indicated that the increase in the proposed fuel charge from the fuel charge approved in D.P.U. 93-7B is attributable to the costs associated with the outages of Units 9 and 10 (Tr. at 18). The Company's witness testified that the outages of Units 9 and 10 necessitated the lease of two replacement units and the Company anticipated additional fuel to be consumed by those replacement units(id.). The Company stated that, on October 7, 1993, Unit 10 experienced a forced outage due to a lube oil analysis which indicated possible wear to the unit's rod and main bearings (id. at 30; Exh. N-2 at 3). In addition, on October 8, 1993, Unit 9 suffered a forced outage due to a problem with either the main bearings or rod bearings (Tr. at 30; Exh. N-2 at 3). Both units are being repaired off-island (Tr. at 30-31).

The Company's witness further testified that the Company was in the process of placing Unit 7 back in service, and anticipated some use of Unit 7 in the upcoming quarter, though the Company

¹(...continued)
for Unit 6. Nantucket Electric Company D.P.U. 93-7A at 14 (1993). The Department disallowed all incremental replacement power costs attributable to a three-day extension of a forced outage associated with the repairs to Unit 6. Id. at 21.

² The Company's witness testified that the replacement units were higher heat rate units (Tr. at 18).

questioned the unit's reliability id. at 13-14). The Company's witness stated that the two units that the Company will lease to supply replacement power for Units 9 and 10 will also be able to provide replacement power for Unit 7 if that unit were not available in the upcoming quarter id.). Finally, the Company's witness testified that if Unit 7 proves to be reliable, the Company may return the leased generators earlier than anticipated (id.).

B. Specific Costs in Dispute

In her written comments, Ms. Walton asserts that the Company continues to underrecover its costs in the summer months, and overrecover in the winter months when there are far fewer ratepayers (Walton Brief at 1). Ms. Walton contends that the Company should forecast more realistically, and match its revenues to the customers who actually use the electricity id.). In addition, Ms. Walton notes that the Company underestimated the costs associated with the units rented this summer to provide replacement power for the disabled Unit 7 id.). Finally, Ms. Walton expressed her concern for the Company's ability to meet demand this winter in light of the unreliable history of Unit 7 (id.).

In its reply, the Company stated that the issue of underrecovery during summer months was addressed by the Department in Nantucket Electric Company D.P.U. 93-7A (1993) (Company Reply at 1). According to the Company, the Department

indicated that electric utilities must rely on the best information available to estimate fuel oil prices and kilowatthour sales (id.). The Company asserted that it was making all reasonable efforts to forecast this information accurately (id.).

The Company also asserted, in its reply, that it based its estimates of the cost of the rental of the two replacement units for Unit 7 on the best information available at the time (id.). Finally, the Company responded to Ms. Walton's concerns regarding meeting increased winter demand by stating that the Company believes the two leased units will provide a sufficient margin of capacity to meet the anticipated winter peak load (id. at 1-2).

The Department addressed Ms. Walton's concern regarding overrecovery during winter months in its Order in D.P.U. 93-7A. Ms. Walton did not present further evidence on this issue sufficient to warrant a change in the Department's decision on the matter. Therefore, the Department reaffirms its directive to the Company to fulfill its responsibility to the ratepayers to ensure that such price projection is prudently determined and reasonable.

III. QUALIFYING FACILITIES

Pursuant to the Department's rules in 220 C.M.R. §§ 8.00 ~~et~~ seq., rates to be paid to QFs for short-run power purchases are set with the same frequency as the fuel charge. A QF is a small power producer or cogenerator that meets the criteria established

by the Federal Energy Regulatory Commission in 18 C.F.R. § 292.203(a) and adopted by the Department in 220 C.M.R. § 8.02.

Pursuant to the governing regulations, the Company is required to calculate short-run energy purchase rates on a time-of-supply basis for two rating periods: peak and off-peak. In addition, the Company is required to calculate a non-time-differentiated energy rate i.e., a total period rate, which is a weighted average of the time-of-supply rates, where the weighting is a function of the number of hours in each rating period. See 220 C.M.R. § 8.04(4)(b).

The Company proposed the following standard rates to be paid to QFs during November and December 1993, and January 1994:

Energy Rates By Voltage Level (Mills/KWH)

| <u>Voltage Level</u> | <u>Peak</u> | <u>Off-Peak</u> | <u>Total</u> |
|----------------------|-------------|-----------------|--------------|
| Primary | \$0.06936 | \$0.06915 | \$0.06929 |

Short-Run Capacity Rates (Mills/KWH)

| <u>Voltage Level</u> | <u>Short Run Capacity Rate</u> |
|----------------------|--------------------------------|
| Primary | \$0.021928 |

IV. FINDINGS

Based on the foregoing, the Department finds:

1. that the fuel charge to be applied to Company bills issued pursuant to meter readings for the billing months of November and December 1993, and January 1994 shall be \$0.05898 per KWH. (The calculation of the fuel charge is shown in Table (1) attached to this Order.); and

2. that the qualifying facility power purchase rates for November and December 1993, and January 1994 shall be the rates set forth in Section III above.

V. ORDER

Accordingly, after due notice, hearing and consideration, it is

ORDERED: That Nantucket Electric Company is authorized to put into effect a quarterly fuel charge of \$0.05898 per KWH as set forth in Section IV, Finding 1 of this Order for bills issued pursuant to meter readings for the billing months of November and December 1993 and January 1994; and it is

FURTHER ORDERED That the fuel charge approved herein shall apply to kilowatthours sold to the Company's customers subject to the jurisdiction of the Department and shall be itemized separately on all such customers' electric bills; and it is

FURTHER ORDERED That the Company's Qualifying Facility power purchase rates for the billing months of November and December 1993 and January 1994, shall be those set forth in Section III of this Order; and it is

FURTHER ORDERED That the Company, in all future fuel charge proceedings, shall notify all intervenors and their respective counsel from the Company's prior two fuel charge proceedings that it is proposing an adjustment to its fuel charge, and shall also notify these persons of the date scheduled for the hearing on the proposed fuel charge at least ten days in advance of the hearing; and it is

FURTHER ORDERED That the Company, in all future fuel charge proceedings, shall provide all intervenors and their

respective counsel from the prior two fuel charge proceedings with a copy of its fuel charge filing, in hand or by facsimile, on the same day it is filed with the Department; and it is

FURTHER ORDERED That, pursuant to G.L. c. 164, § 94G(a) and (b), fuel costs allowed by this Order are subject to such disallowance as the Department may determine in any subsequent investigation of the Company's performance period that includes the quarter applicable to the present charges.

By Order of the Department,